

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6320

BILL NUMBER: SB 173

DATE PREPARED: Feb 21, 2002

BILL AMENDED: Feb 21, 2002

SUBJECT: State Police Disability Pension.

FISCAL ANALYST: James Sperlik

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill (A) authorizes the Indiana State Police Department (ISP) to establish disability expense reimbursements and disability pensions for employee beneficiaries who incur disabilities: (1) in the line of duty; and (2) not in the line of duty; (B) authorizes the ISP to seek rulings from the Internal Revenue Service (IRS) as to the federal tax treatment for the line-of-duty disability benefits; (C) provides for a waiver of tuition and mandatory fees at any state-supported college, university, or technical school for the child or spouse of a regular, paid ISP police employee who has been permanently and totally disabled by a catastrophic personal injury that was sustained in the line of duty and permanently prevents the employee from performing any gainful work. (D) provides a disability pension in lieu of the regular disability pension to a regular paid police employee of the ISP who is permanently and totally disabled by a catastrophic personal injury sustained in the line of duty after January 1, 2001, that prevents the employee from performing any gainful work. It provides that the pension is equal to the employee's regular salary at the commencement of the disability. It also provides that the pension must be increased at a rate equal to any salary increases that the employee would have received had the employee remained in active service. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2002.

Explanation of State Expenditures: (Revised) (A) *The bill authorizes the Indiana State Police Department (ISP) to establish disability expense reimbursements and disability pensions for employee beneficiaries who incur disabilities: (1) in the line of duty; and (2) not in the line of duty.*

The specific fiscal impact will depend upon the type of program established by the ISP. Expenditures could increase, decrease, or remain the same. The funds affected are the State General Fund and the Motor Vehicle Highway Account, both of which support the ISP equally for disability and pension benefits.

(B) Seeking the ruling from the IRS likely will not have a fiscal impact. The ISP has a contract with an outside legal counsel for their disability and pension matters. It is likely that any work required for seeking

the IRS ruling would come under the existing contract.

(D) provides a disability pension in lieu of the regular disability pension to a regular paid police employee of the ISP who is permanently and totally disabled by a catastrophic personal injury sustained in the line of duty after January 1, 2001.

Under this proposal, disability benefits paid from the Benefit Plan Trust as a result of a catastrophic disability would be equal to the employee's regular salary and will increase as the salary would have increased had the employee remained active.

According to the ISP, there is currently one such disability, and the employee would receive the increased benefits provided by the change. To account for future catastrophic disabilities, it has been estimated that two percent of all future disabilities will be catastrophic and qualify for the increased benefits.

It has been assumed that this modification will not change the duration of the disability benefits and will not change the ultimate retirement benefit paid from the Pension Trust.

The estimated fiscal impact of part D is shown below:

| | <u>Pension Trust</u> | <u>Benefit Fund</u> |
|--|----------------------|---------------------|
| Increase in Unfunded Actuarial Liability | NA | \$525,000 |
| Increase in Annual Funding | NA | (see below) |
| Increase in Annual Payroll | NA | (see below) |

| <u>Plan Year</u> | <u>Change in Expected Benefit Payouts</u> |
|------------------|---|
| 2002-2003 | \$19,100 |
| 2003-2004 | \$22,300 |
| 2004-2005 | \$24,500 |
| 2005-2006 | \$27,300 |
| 2006-2007 | \$29,900 |

The funds affected are the State General Fund (50%) and the Motor Vehicle Highway Account (50%), both of which equally support the ISP pension and benefit plans.

Explanation of State Revenues: *(B) The bill authorizes the ISP to seek rulings from the Internal Revenue Service(IRS) as to the federal tax treatment for the line of duty disability benefits.*

Receiving an IRS ruling favorable to the individual on the federal tax treatment for the line-of-duty disability benefits would, initially, impact federal income tax revenue. If Indiana incorporates the ruling in the state's annual revenue update bill, state revenues from the Individual Adjusted Gross Income Tax likely would be reduced by an indeterminable amount. Revenue from the Individual Gross Income Tax is deposited into the

State General Fund. For FY 2000, the most recent year for which complete data are available, total disability payments amounted to \$941,435. Specific data on the amount for line-of-duty disability are not available. Using this amount as a base, if these payments were tax exempt, the revenue loss would amount to \$32,000.

(C) The bill provides for a waiver of tuition and mandatory fees at any state-supported college, university, or technical school for the child or spouse of a regular, paid ISP police employee who has been permanently and totally disabled by a catastrophic personal injury that was sustained in the line of duty and permanently prevents the employee from performing any gainful work.

This bill would increase the level of statutory fee remissions for state-supported colleges and universities. The university's general fund absorbs the costs of fee remissions. Universities must provide statutory remissions first; the remainder of the money is discretionary. As statutory requirements increase, the level of discretionary dollars decreases.

The number of individuals for whom the expanded benefits of this provision could affect is indeterminable.

Background Information: In FY 2000, the average award per student who received fee remissions from state-supported institutions under the current Children of Disabled Veterans statute amounted to \$2,188.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Police; State-supported Colleges, Universities, and Technical Schools.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for the State Police, 576-1508; Indiana Higher Education Commission.

DEFINITIONS:

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Pay-As-You-Go Method (sometimes called current disbursement cost method) a method of recognizing the costs of a retirement system only as benefits are paid.

Funding systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.